

**DEPARTMENT OF TRANSPORTATION****AUDITS AND INVESTIGATIONS**

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June 30, 2009

Ms. Suzanne Bode  
Accounting Manager  
Metropolitan Transportation Commission  
101 Eighth Street  
Oakland, CA 94607

Re: Metropolitan Transportation Commission  
Audit of Indirect Cost Allocation Plan for FY 2008/2009  
File Number: P1591-0027 (P1190-0708)

Dear Ms. Bode:

We have audited the Metropolitan Transportation Commission's (MTC) Indirect Cost Allocation Plan (ICAP) for the fiscal year (FY) ended June 30, 2009, to determine whether the ICAP is presented in accordance with 2 Code of Federal Regulations (CFR) Part 225 (formerly Office of Management and Budget Circular A-87) and the California Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. MTC management is responsible for the fair presentation of the ICAP. MTC proposed an indirect cost rate of 54.54 percent of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of MTC. Therefore, we did not audit and are not expressing an opinion on MTC's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by MTC, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of MTC in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a limited review of MTC's Overall Work Program for FY 2008/09, a review of MTC's single audit report for the FY ended June 30, 2008, inquiries of MTC personnel, reliance placed on the single audit report for the FY ended June 30, 2008, and prior audit field work performed by the Department in May 2008. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

## **AUDIT RESULTS**

Based on audit work performed, MTC's ICAP for the FY ended June 30, 2009, is presented in accordance with 2 CFR Part 225 and the Department's LPP 04-10. The approved indirect cost rate is 54.54 percent of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry forward provision applies and no adjustment will be made to previously approved rates.

MTC requested a provisional rate of 49.71 percent on September 17, 2008, for FY 2008/09. Audits and Investigations approved the provisional rate on September 28, 2009.

We followed up on a finding, reported in MTC's FY ended June 30, 2008, single audit report. The finding identified an overcharge of \$20,614 in Federal Highway Administration (FHWA) funds. We reviewed supporting documentation from MTC that showed the overcharge was credited properly. Appropriate corrective action was taken by MTC; therefore, the single audit finding is resolved.

This report is intended solely for the information of MTC, Department Management, the California Transportation Commission and the FHWA. However, this report is a matter of public record and its distribution is not limited.

Please retain the approved ICAP for your files. Copies were sent to the Department's District 4, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Lisa Moreno, Auditor, at (916) 323-7885 or Cliff Vose, Audit Manager, at (916) 323-7917.

**MARYANN CAMPBELL-SMITH**  
Chief, External Audits

Attachments

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration  
Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration  
Dan Mundy, Branch Chief, Rural Transit and Procurement, Division of Mass  
Transportation  
David Saia, Senior Transportation Engineer, Policy Development and Quality  
Assurance, Division of Local Assistance  
Jenny Tran, Associate Accounting Analyst, Local Assistance Accounting Branch,  
Division of Accounting  
Andrew Knapp, Associate Transportation Planner, Regional and Interagency  
Planning, Division of Transportation Planning  
Muhaned Aljabiry, Local Assistance Engineer, District 4  
Liam Cunningham, Associate Transportation Planner, District 4  
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## **Metropolitan Transportation Commission Indirect Cost Plan**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the Metropolitan Transportation Commission and approved by Caltrans.

### **SECTION I: Rates**

<b>Rate Type</b>	<b>Effective Period</b>	<b>Rate *</b>	<b>Applicable To</b>
Fixed with carry-forward	7/1/08 to 6/30/2009	54.54%	All programs including MTC, BATA and SAFE

\* Base: Total Direct Salaries and Wages plus fringe benefits

### **SECTION II: General Provisions**

#### **A. Limitations:**

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance to the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing costs principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) The estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

#### **B. Accounting Changes:**

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of costs from indirect to direct. Failure to obtain approval may result in cost disallowances.

#### **C. Fixed Rate with Carry Forward:**

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined - either by the grantee's Single Audit or if a Single audit is not required, then by the grantee's audited financial statements - any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The

## CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2009 (July 1, 2008 to June 30, 2009) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Metropolitan Transportation Commission

Signature

Prepared by:

Name: Suzanne Bode

Title: Accounting Manager

Signature\_\_

Signature

Approved and Submitted by:

Name of Official: Therese McMillan

Title: Deputy Director, Policy

Date of Execution: March 2, 2009

Reviewed by:

Name of Official: Brian Mayhew

Title: Chief Financial Officer (CFO)

Telephone Number: (510) 817-5730

### INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Signature

Reviewed and Approved and by:

(Name of Audit Manager)

Title: Sr Management Auditor

Date: 6/30/09

Phone Number: (916) 323-7868

Signature

Reviewed and Approved and by:

(Name of Auditor)

Title: Associate Management Auditor

Date: 6/29/09

Phone Number: (916) 323-7865